



# **INDIA'S ECONOMIC RECOVERY: Drivers and Risks**

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# THE GLOBAL SCENARIO



## Global Growth: Modest signs of recovery

(Growth in per cent)

	Jan-09	Apr-09	July-09	Aug-09	Oct-09
<b>Global</b>					
<b>2009</b>	0.5	-1.3	-1.4	-1.3	<b>-1.1</b>
<b>2010</b>	3.0	1.9	2.5	2.9	<b>3.1</b>
<b>Advanced Economies</b>					
<b>2009</b>	-2.0	-3.8	-3.8	-3.7	<b>-3.4</b>
<b>2010</b>	1.1	0.0	0.6	1.0	<b>1.3</b>
<b>Emerging and Developing Economies</b>					
<b>2009</b>	3.3	1.6	1.5	1.5	<b>1.7</b>
<b>2010</b>	5.0	4.0	4.7	5.0	<b>5.1</b>
<b>India</b>					
<b>2009</b>	5.1	4.5	5.4	5.3	<b>5.4</b>
<b>2010</b>	6.5	5.6	6.5	6.5	<b>6.4</b>



# Global Inflation: Asymmetric patterns

Y-o-Y Per cent

	Nov-08	Mar-09	Nov-09
<b>Developed Economies</b>			
US	1.1	-0.4	1.8
UK	4.1	2.9	1.9
Euro Area	2.1	0.6	0.5
Japan <sup>^</sup>	1.7	-0.3	-2.5
Canada <sup>^</sup>	2.6	1.2	0.1
Australia	5.0*	2.5	1.3*
<b>Developing Economies</b>			
China <sup>^</sup>	4.0	-1.2	-0.5
Korea	4.5	3.9	2.4
Thailand	2.2	-0.2	1.9
Malaysia <sup>^</sup>	7.6	3.5	-1.6
<b>India (Industrial Workers)<sup>^</sup></b>	<b>10.4</b>	<b>8.0</b>	<b>11.5</b>
<b>India (Agricultural Labourers)</b>	<b>11.1</b>	<b>9.5</b>	<b>15.7</b>
Indonesia	11.7	7.9	2.4
Philippines	9.9	6.4	2.8
Brazil	6.4	5.6	4.2
Israel <sup>^</sup>	5.5	3.6	2.9
Russia	12.2	14.0	9.1
South Africa <sup>^</sup>	12.1	8.5	5.9

<sup>^</sup>: October

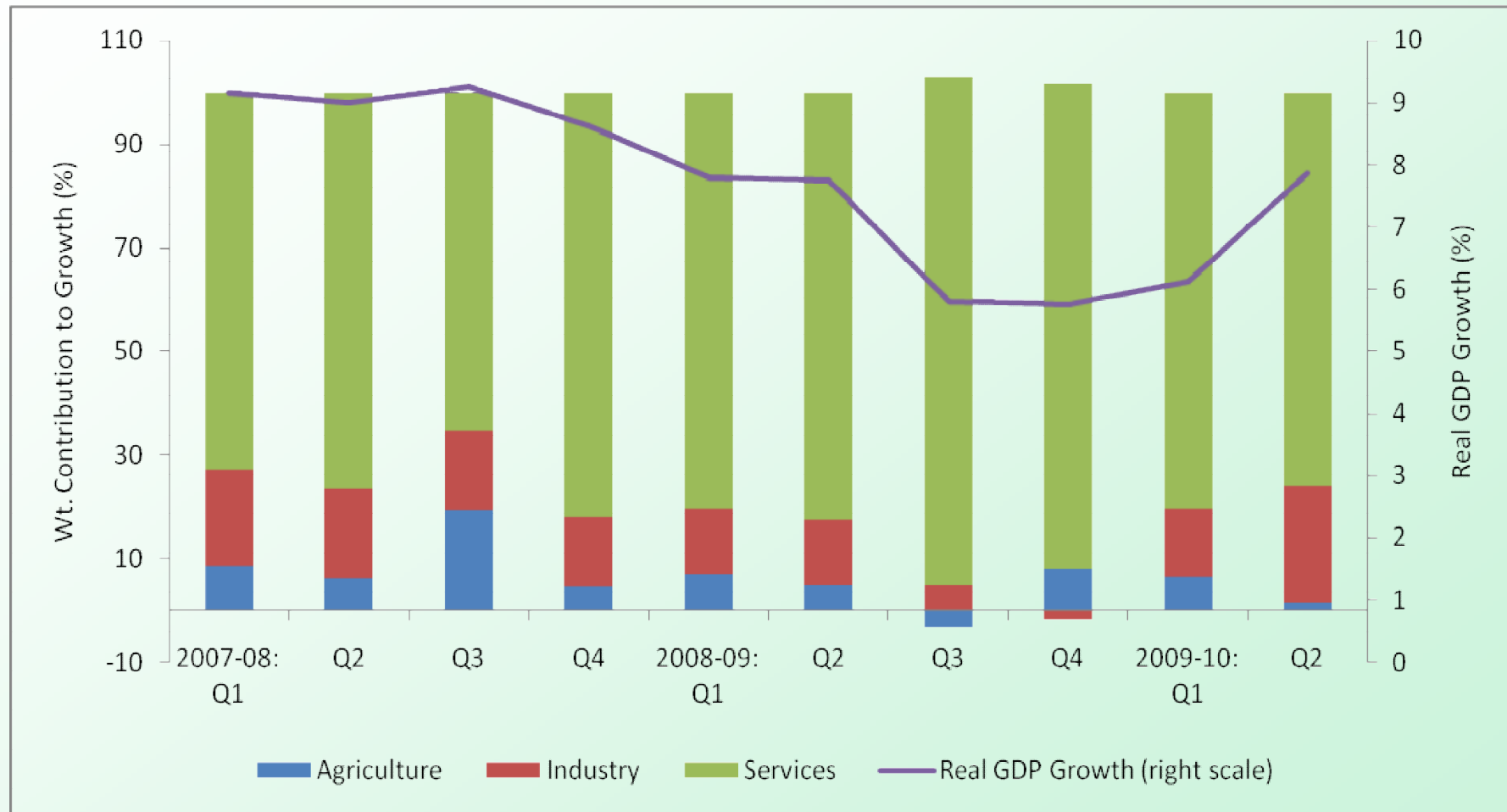
\* : Quarterly figures for Q3.



# THE DOMESTIC SCENARIO

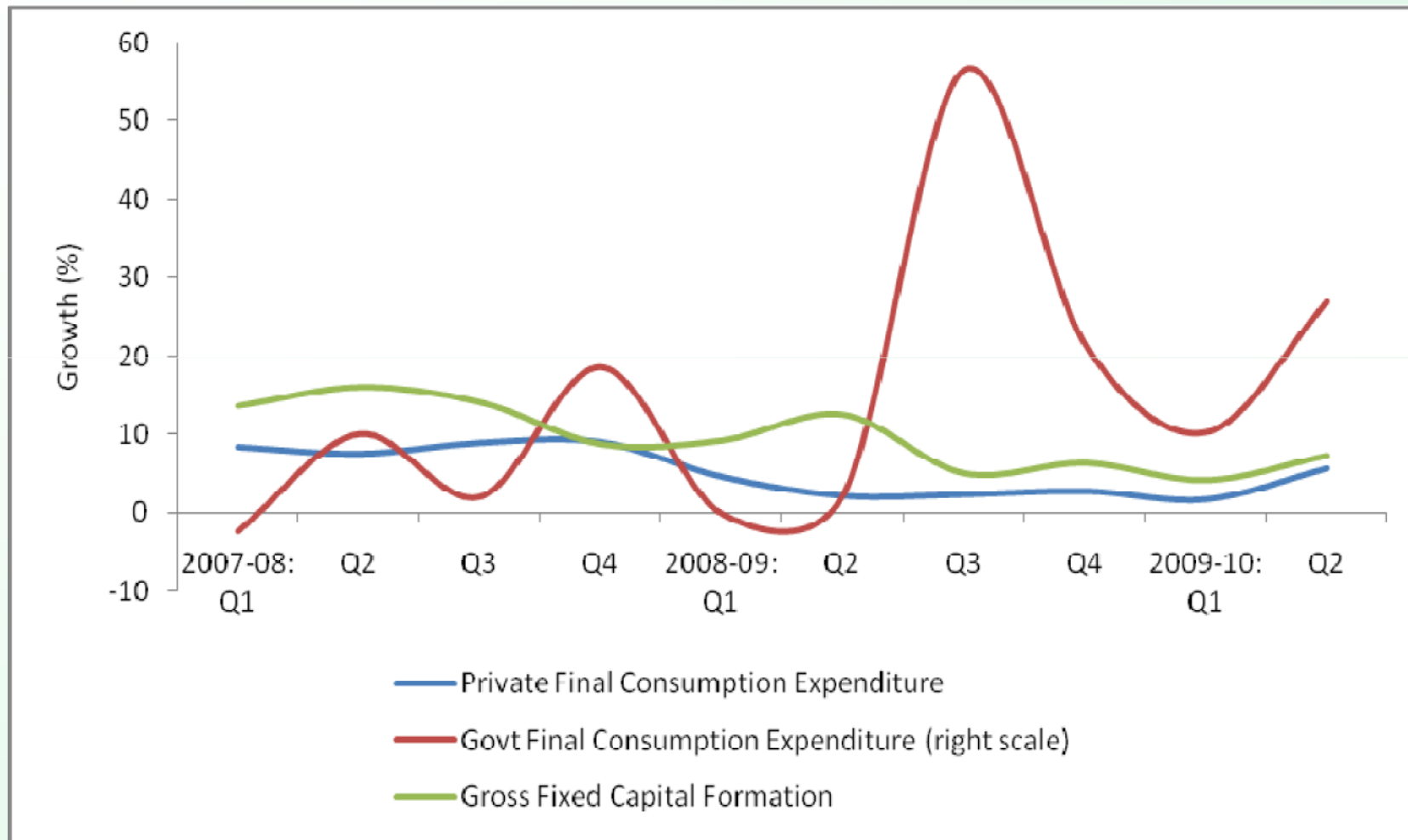


# Growth: Sectoral Contributions Reverting to “Normal”





## Growth: Govt. Expenditure dominates, but slight pick-up in private spending





# Industrial Production: Driven by Durables

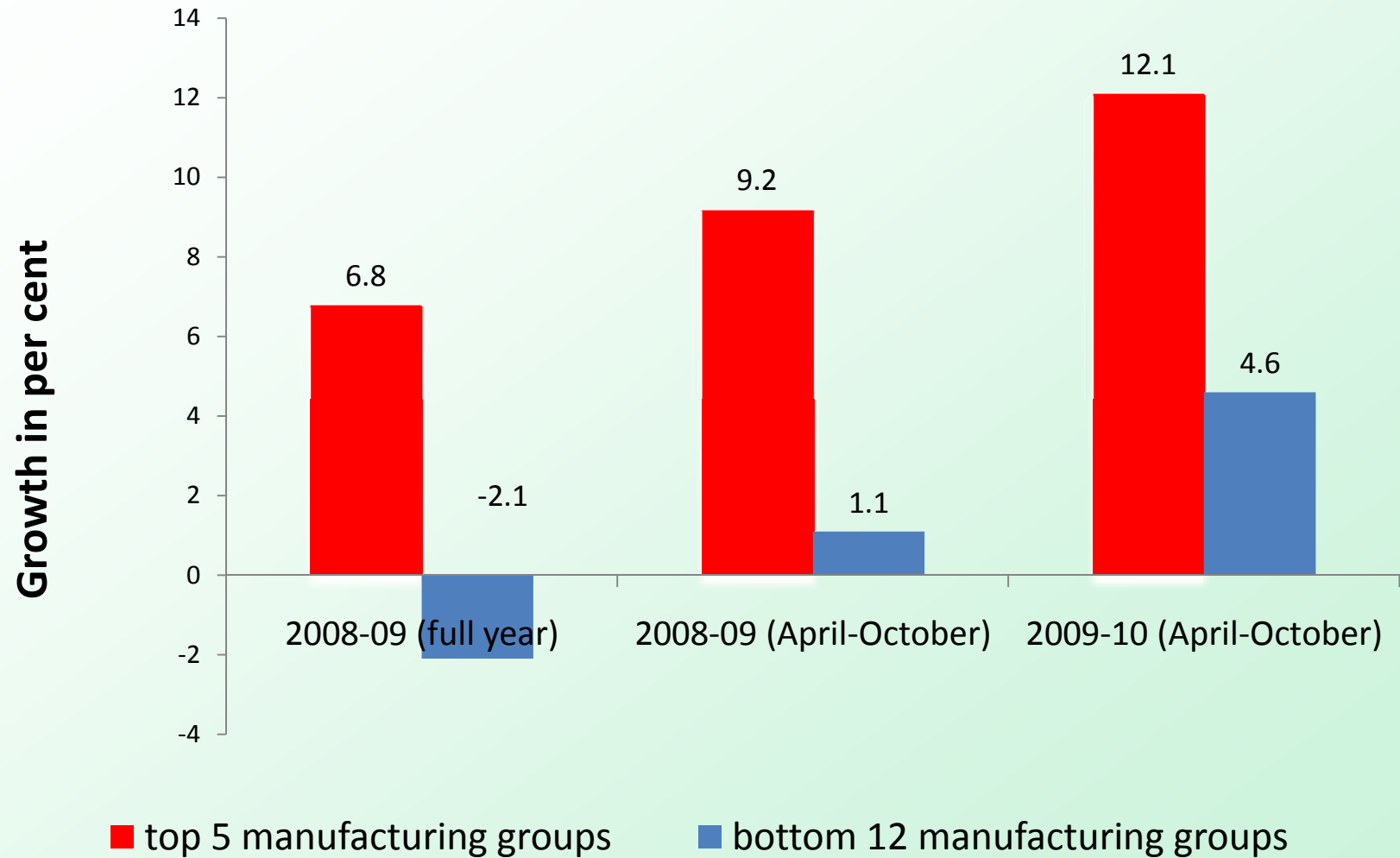
(Growth rate in per cent)

Sector	Weight in IIP	2007-08	2008-09	April-October	
				2008-09	2009-10
IIP	100	8.5	2.7	4.3	7.1
Basic Goods	35.6	7.0	2.6	3.8	6.4
Capital Goods	9.3	18.0	7.3	9.7	6.3
Intermediate Goods	26.5	8.9	-1.9	-0.3	10.2
Consumer Goods	28.7	6.1	4.7	6.4	5.5
i) Consumer Durables	5.4	-1.0	4.5	5.8	19.4
ii) Consumer Non-durables	23.3	8.5	4.8	6.6	0.8





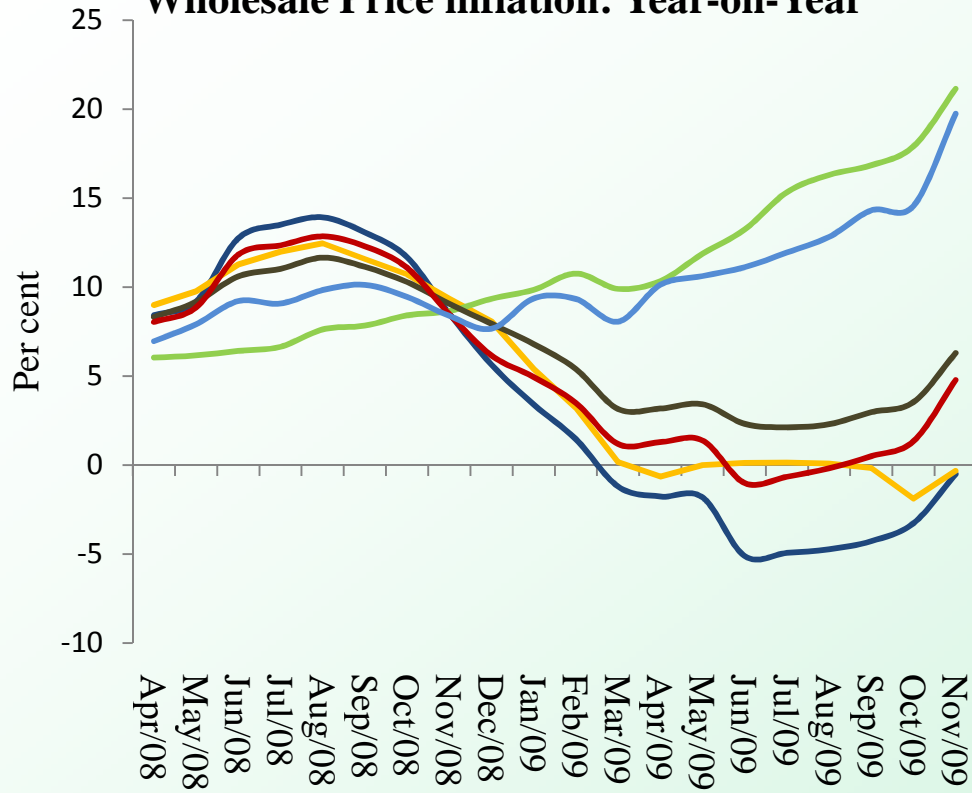
## Industrial Production: Asymmetric recovery





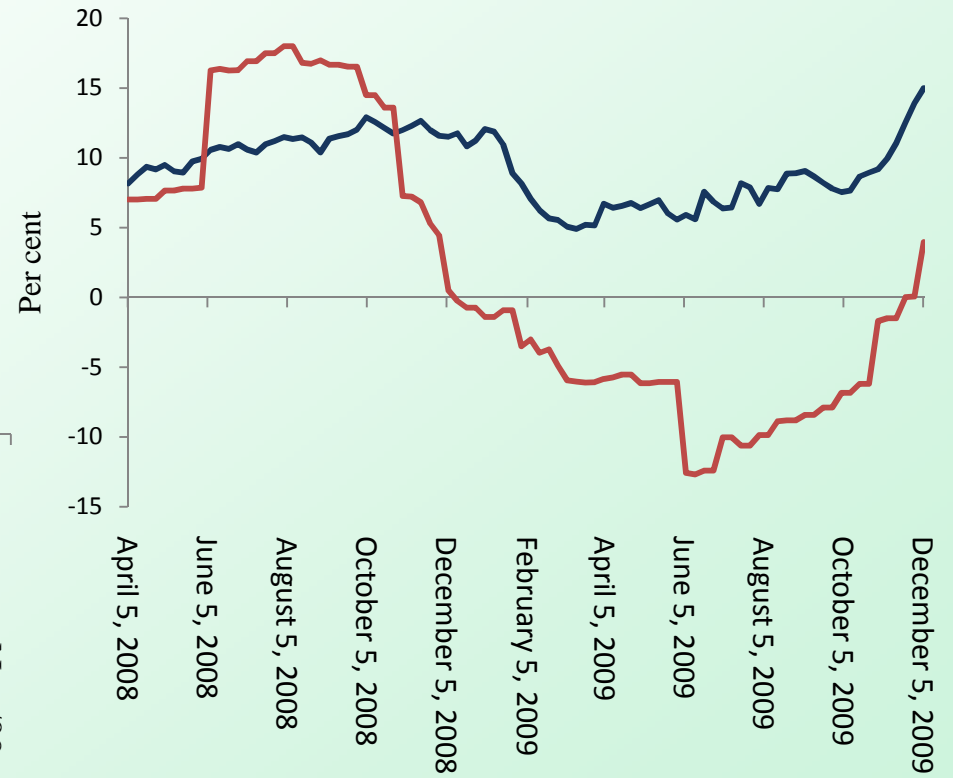
# Inflation: Food-driven but signs of spread

### Wholesale Price inflation: Year-on-Year



- WPI-Excluding Food
- WPI-Excluding Food and Fuel
- WPI-Essential Commodity Group
- WPI-Excluding Fuel
- WPI- All Commodities
- WPI-Food (Composite)

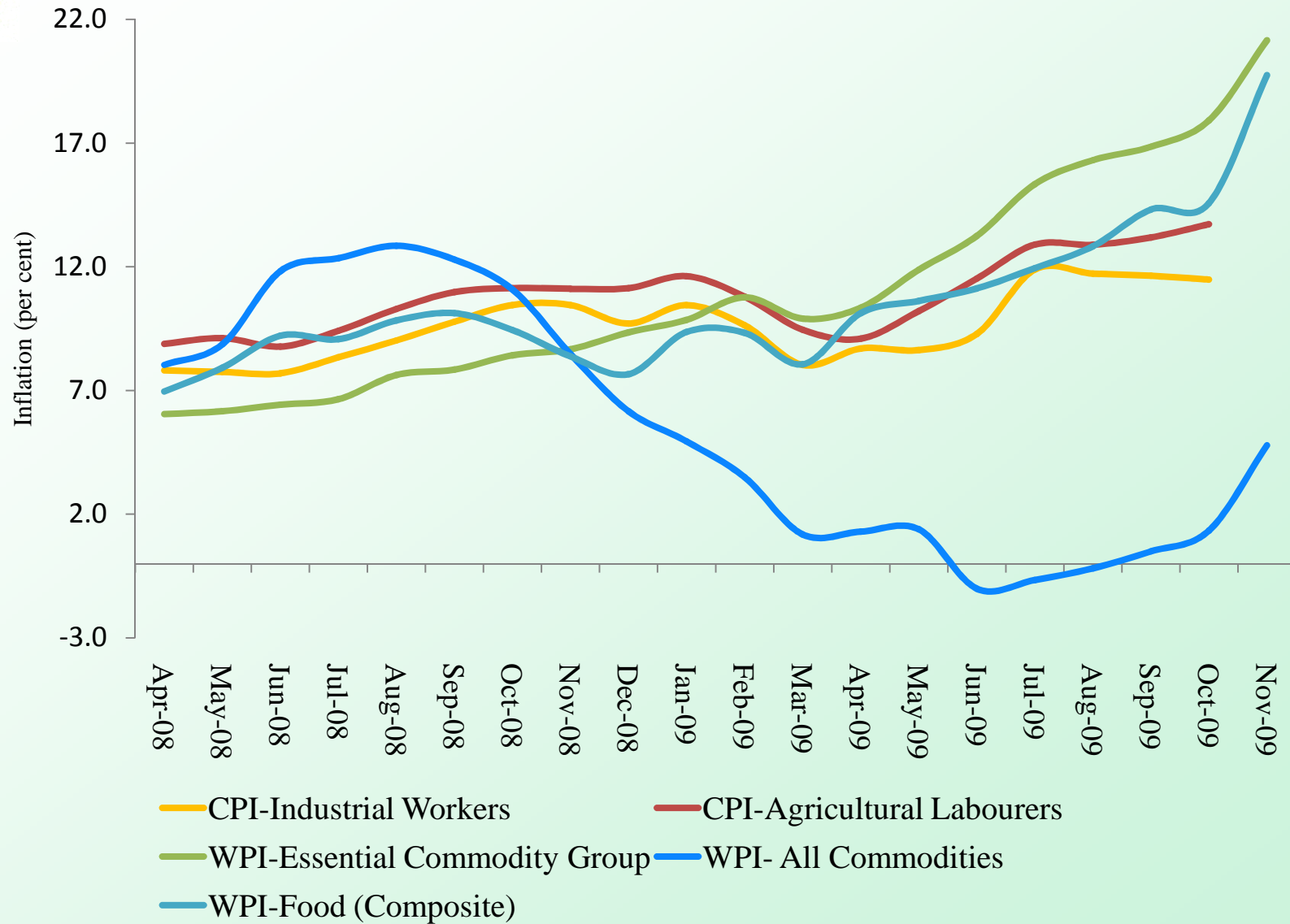
### Primary Articles and Fuel Group Inflation



- Primary Articles
- Fuel Group



# Inflation: Asymmetric impact on consumers



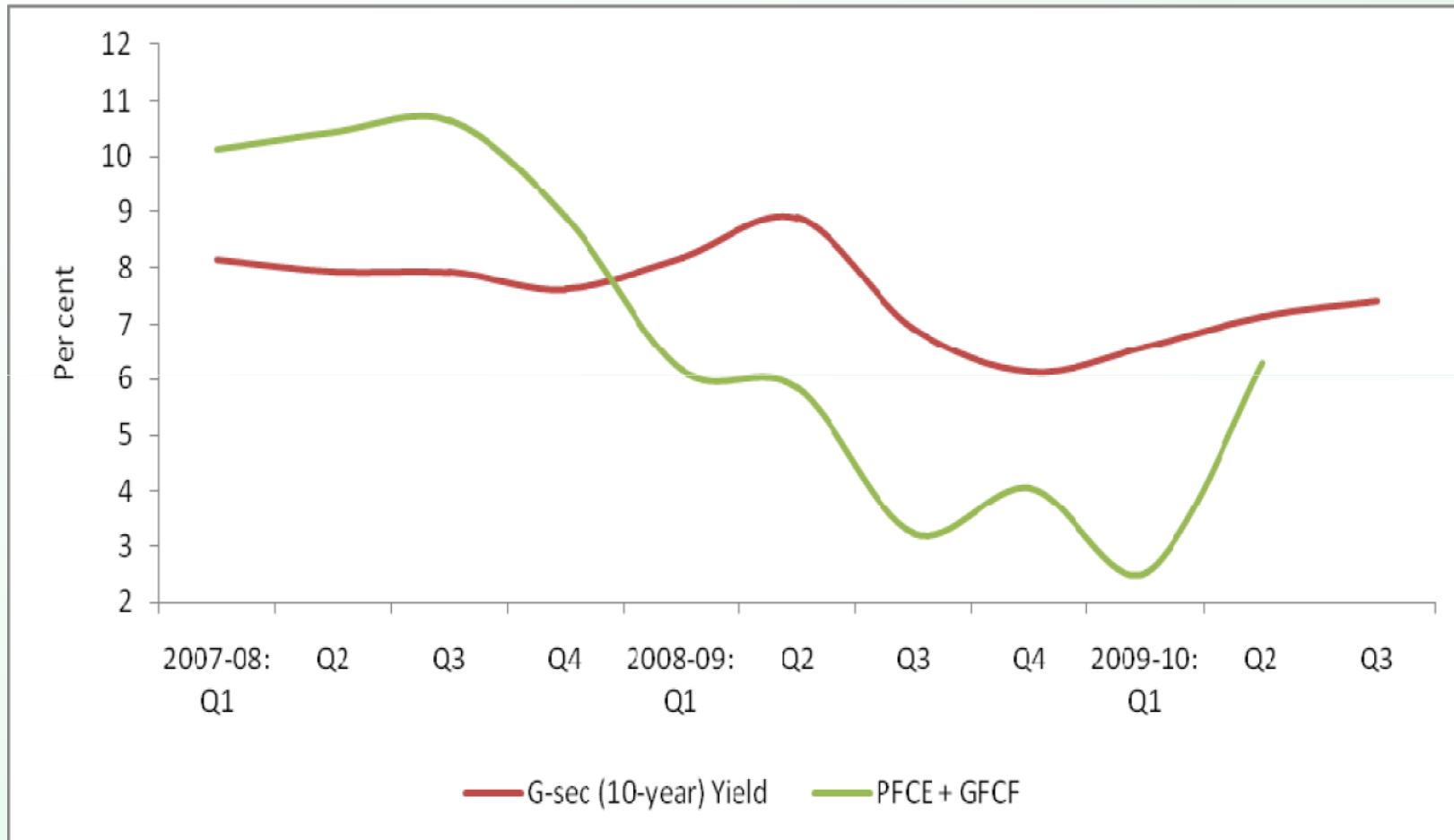


## Credit Growth: Recovering, but slowly

Sector/Industry	Outstanding	Year-on-Year Variation (%)	
	October 2009 (Rs. crore)	Oct-08	Oct-09
		Per cent	Per cent
1	2	4	6
<b>Non-Food Bank Credit (1 to 4)</b>	<b>26,87,002</b>	<b>29.4</b>	<b>9.9</b>
<b>1.Agri. &amp; Allied Activities</b>	<b>3,37,416</b>	<b>23.4</b>	<b>19.9</b>
<b>2.Industry</b>	<b>11,45,142</b>	<b>37.4</b>	<b>14.8</b>
<b>3.Personal Loans</b>	<b>5,62,754</b>	<b>15.0</b>	<b>-0.1</b>
<i>of which:</i> Housing	2,88,770	11.0	6.2
<b>4. Services</b>	<b>6,41,690</b>	<b>35.5</b>	<b>6.3</b>
<i>of which:</i> Trade	1,53,463	20.7	14.4
Real Estate	88,288	44.2	21.2
NBFC	1,04,658	60.5	20.8

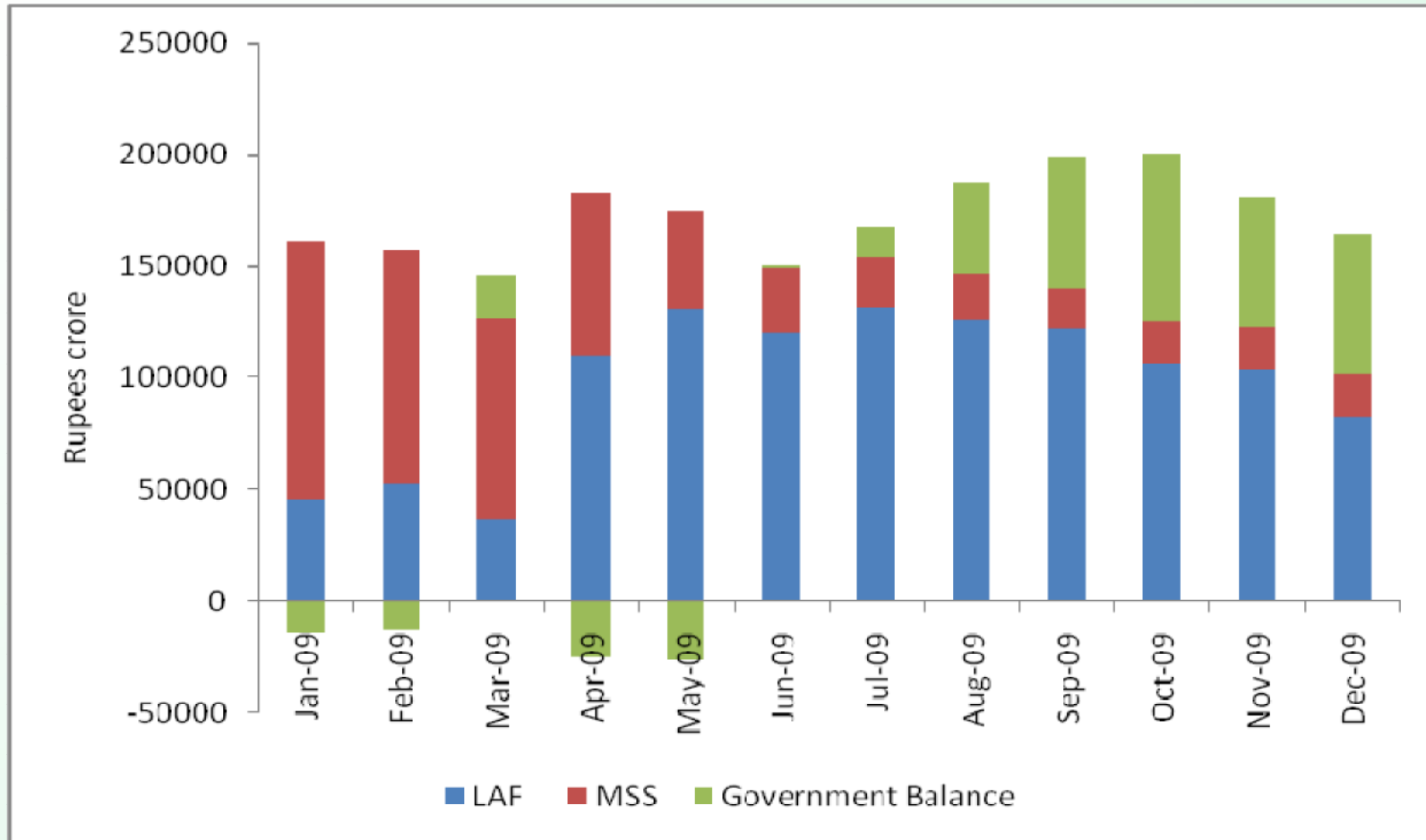


## Interest Rates: Sticky despite sluggish pvt. spending





## Liquidity: Comfortable, at an aggregate level





## Drivers of Recovery: Monetary Policy

Policy Measure	Change
Reverse repo rate	-275 bps
Repo rate	-425 bps
CRR	-400 bps
SLR	-100 bps
Actual/potential liquidity – CRR, MSS, special facilities	Rs.5617 billion (9% of GDP)

### Other measures:

Relaxation in prudential norms, Restructuring,  
Relaxation in ECB norms,  
Higher ceilings for NRI deposits



## Drivers of Recovery: Fiscal Policy

Item	% to GDP	
	2008-09	2009-10
Tax reductions	0.2	0.4
Investment	0.8	0.1
Pay Commission Impact	0.5	0.3
Other Expenditure	0.9	1.0
Total	2.4	1.8
<i>Debt waiver</i>	0.3	-





## BoP: In Balance

Item	2007-08		2008-09		2008-09	2009-10
	US\$ billion	(% to GDP)	US\$ billion	(% to GDP)	April-June (US\$ billion)	
<b>Exports</b>	166	14.2	175	15.1	<b>49</b>	<b>39</b>
<b>Imports</b>	258	22.0	295	25.5	<b>81</b>	<b>65</b>
<b>Trade Balance</b>	-92	-7.8	-119	-10.3	<b>-31</b>	<b>-26</b>
<b>Invisibles</b>	75	6.4	90	7.7	<b>22</b>	<b>20</b>
<b>Current A/c</b>	-17	-1.5	-30	-2.6	<b>-9</b>	<b>-6</b>
<b>Capital A/c</b>	108	9.2	9	0.8	<b>11</b>	<b>7</b>
<b>Overall Balance *</b>	92	7.9	-20	-1.7	<b>2</b>	<b>0</b>

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\*: Including errors and omissions.



# Drivers, Risks and Policy Considerations



# Drivers

- ◆ Global economy showing signs of modest recovery in 2010
- ◆ Domestic recovery appears to be gaining momentum
  - *Contribution of manufacturing sector increasing*
- ◆ Govt. borrowing requirements not likely to exceed estimates
- ◆ Ample liquidity in the system despite 2<sup>nd</sup> quarter surge in growth
- ◆ Current account deficit likely to remain moderate



# Risks

- ◆ Growth pattern is skewed
  - *Recovery still driven by a few sectors*
  - *Public spending contributing significantly*
- ◆ Food inflation racing ahead
  - *As capacity constraints emerge, dangers of an expectations-induced spiral*
- ◆ High interest rates – restraining credit flows?
- ◆ Potential surge in capital inflows
  - *Global liquidity and domestic recovery*



# Policy Considerations

- ◆ From “Managing Crisis” to “Managing Recovery”
  - *Shift from predominant growth focus to balance between growth and inflation in Oct 2009 announcement*
  
- ◆ Inflation Risks
  - *As growth accelerates, supply-side drivers could translate into wider pressures*
  
- ◆ Maintenance of Adequate Liquidity
  - *Supporting the recovery by ensuring that liquidity does not become a constraint*



**Thank You**